

**GF Securities Co., Ltd.**

# **2017 Annual Results (IFRS)**

March 2018

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# 01

| Market  
Overview |



# 2017 market overview (I)

## Economic environment

- In 2017, global economic growth accelerated with a steady recovery. There were clear signs of a recovery in the real economy in China with supply-side structural reform having achieved certain results.
- China recorded GDP growth of 6.9% in 2017.

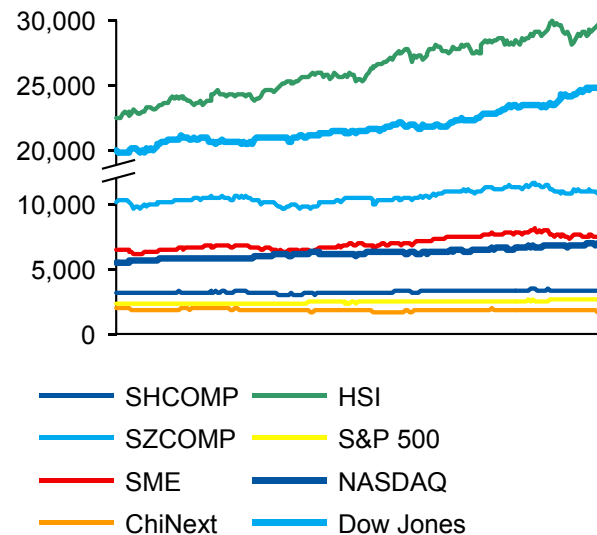
## 19<sup>th</sup> CPC National Congress

- It was announced that China has entered a new era for the development of socialism with Chinese characteristics.
- Financial industry reform will deepen further in a bid to prevent and dissolve risks and further strengthen the industry's ability to serve the real economy.
- The securities industry plays an important role in enhancing the proportion of direct financing, and promoting the development of multi-layered capital markets, demonstrating substantial room for growth.

## Regulatory environment

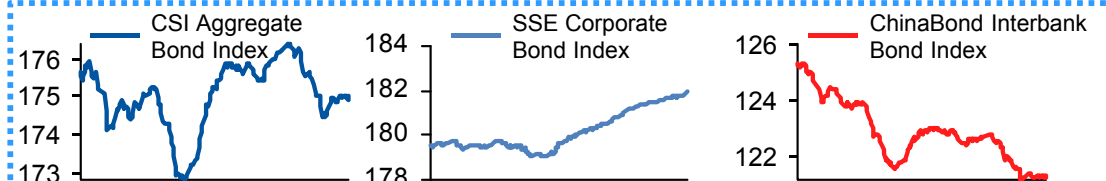
- Amid the prevention of systematic financial risk, economic deleveraging, and a policy stance of "stringent and comprehensive regulation according to law", the A-share market continued to experience fluctuations, with divergent performance between sectors.

## Major global stock index performance in 2017



- SHCOMP up 6.56% from end-2016;
- SZCOMP up 8.48%;
- SME Index up 16.73%;
- ChiNext Index down 10.67%;
- HSI up 38.26 %.

## Daily close of bond market indices in China (2017)

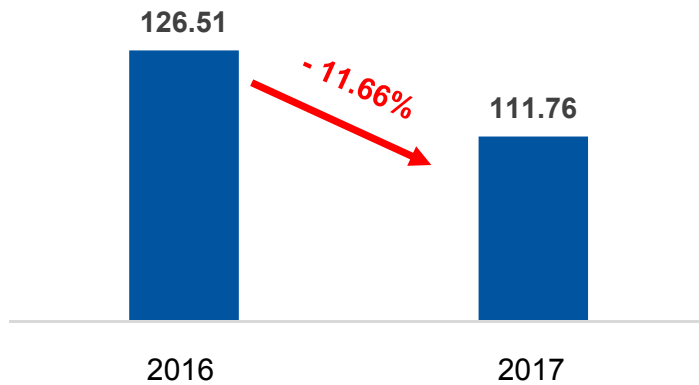


The bond market became much more volatile. As of end-2017, the CSI Aggregate Bond Index declined 0.34% from end-2016; the SSE Corporate Bond Index grew 1.37%; the ChinaBond Interbank Bond Index fell 3.29%.

# 2017 market overview (II)

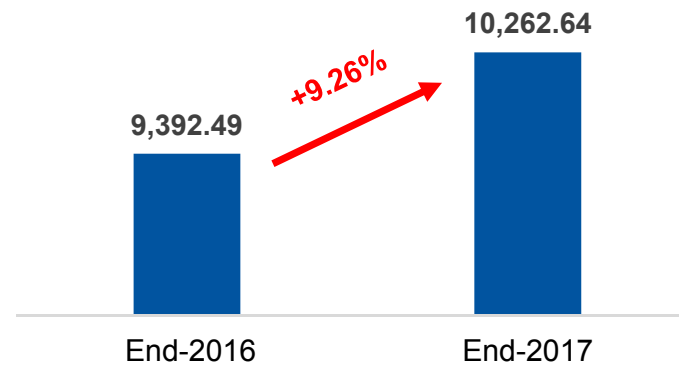
## A-share market turnover

(RMB trillion)



## Balance of margin financing & securities lending for Shanghai & Shenzhen stock markets

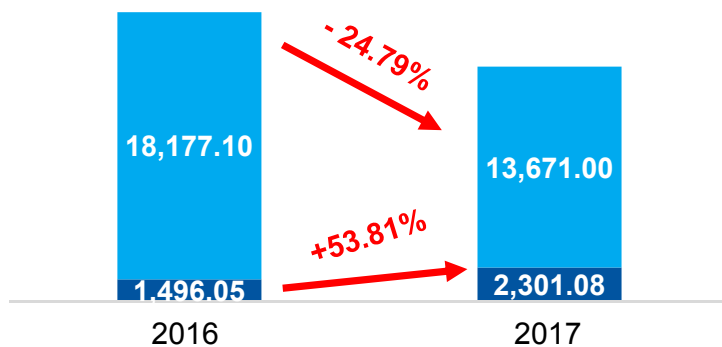
(RMB 100 million)



## A-share equity financing

(RMB 100 million)

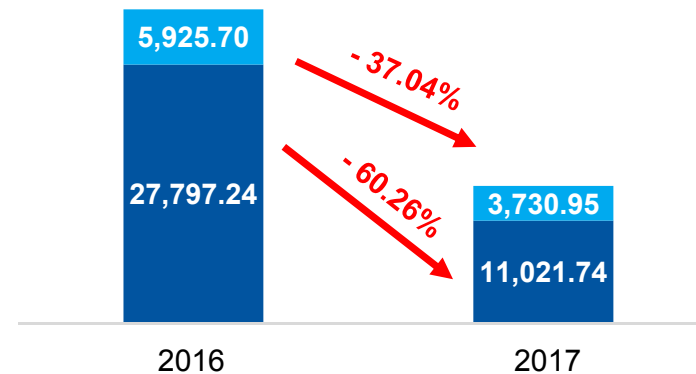
■ IPO ■ Refinancing



## Corporate and enterprise bond financing

(RMB 100 million)

■ Corporate bonds ■ Enterprise bonds

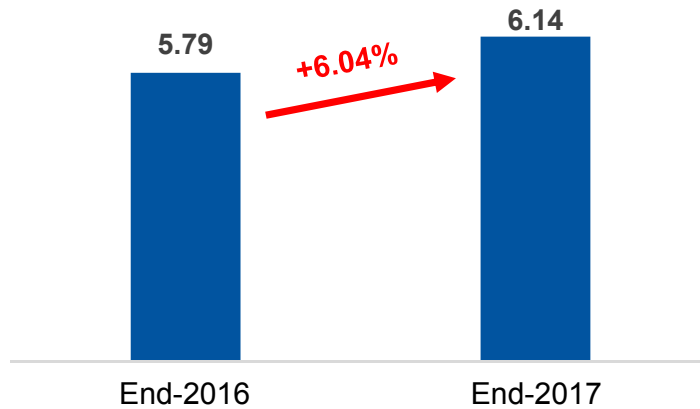


Source: Wind, 2018

# 2017 market overview (III)

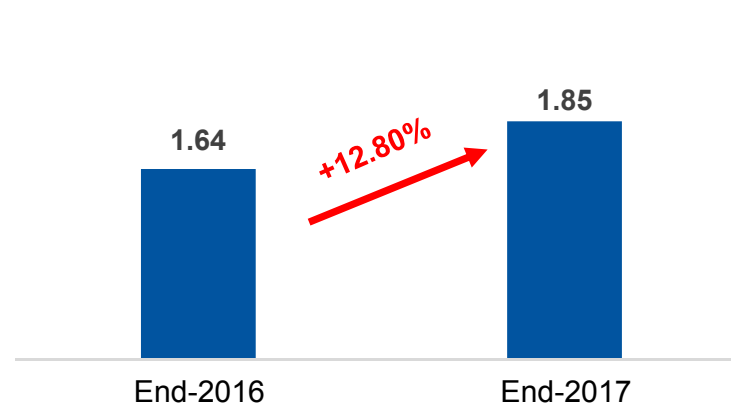
## Securities industry total assets

(RMB trillion)



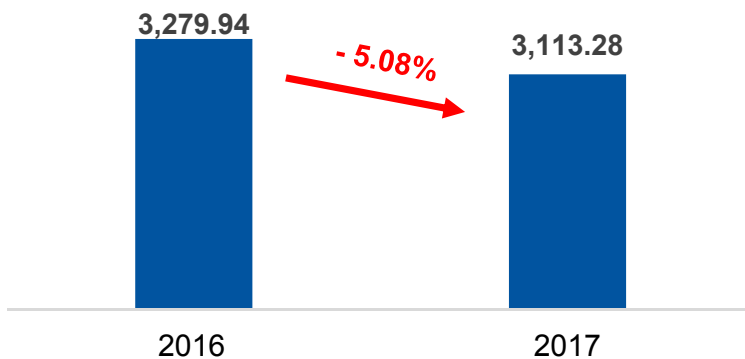
## Industry net assets

(RMB trillion)



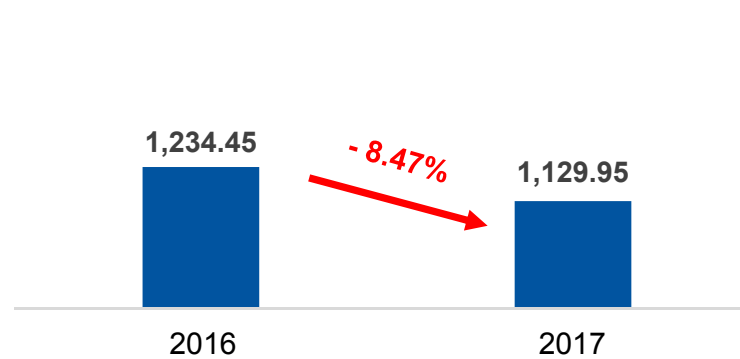
## Industry revenue

(RMB 100 million)



## Industry net profit

(RMB 100 million)



Source: Securities Association of China, 2018 (unaudited data)





# 02

| Operating  
Results |

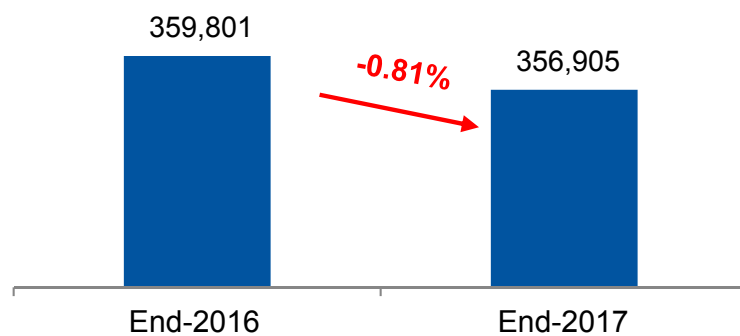




# Key financial performance

## Total assets

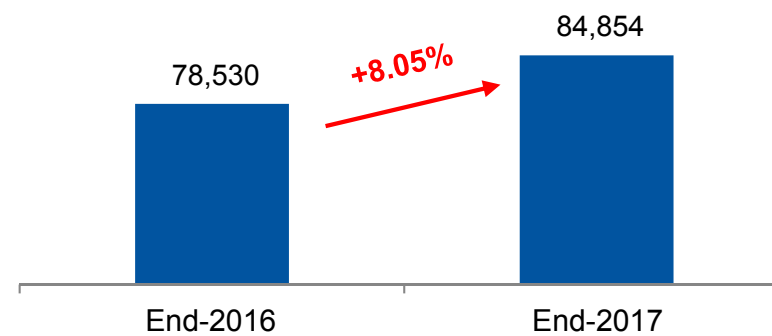
(RMB million)



## Equity attributable to owners of the Company

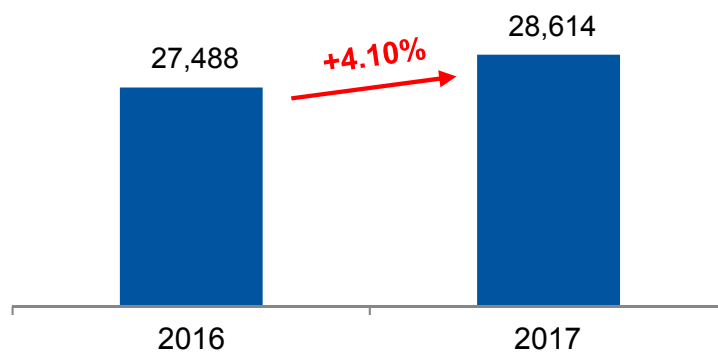
(RMB million)

**End-2017 BPS RMB 11.13**



## Revenue and other income

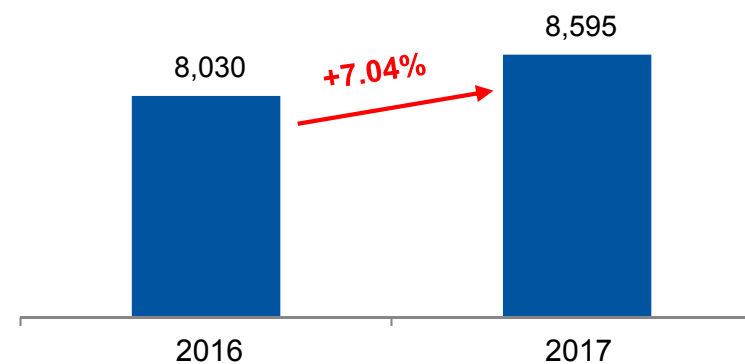
(RMB million)



## Net profit attributable to owners of the Company

(RMB million)

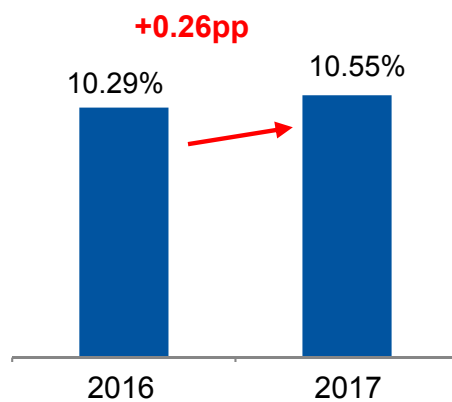
**2017 EPS RMB 1.13**



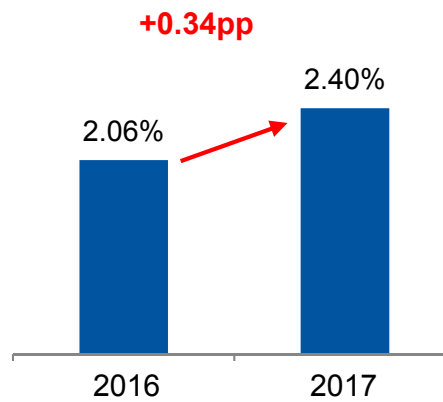
Source: Company financial reports

# Key financial data

## ROAE



## ROAA



## Cash dividends for common shareholders over past 3 years

Year	Cash dividend (tax included; RMB million)	As % of common shareholders' net profit in consolidated financial statement
2017: RMB 0.40/share proposed	3,048	35.47%
2016: RMB 0.35/share	2,667	33.22%
2015: RMB 0.8/share	6,097	46.18%

**Average payout ratio 38.29% during 2015-2017**

## Revenue, expense and profit breakdown

(RMB million)	2016	2017	Change
Revenue and other income	27,488	28,614	4.10%
Commission and fee income	13,391	11,564	-13.64%
Interest income	7,831	8,018	2.39%
Net investment gains	6,511	8,734	34.15%
Total expenses	17,186	17,431	1.43%
Share of results from associates and JVs	403	461	14.42%
<b>Net profit attributable to owners of the Company</b>	<b>8,030</b>	<b>8,595</b>	<b>7.04%</b>
Cost-to-income ratio <sup>1</sup>	62.52%	60.92%	-1.60pp <sup>2</sup>
Adjusted cost-to-income ratio <sup>3</sup>	48.96%	46.28%	-2.68pp <sup>2</sup>

Source: Company financial reports

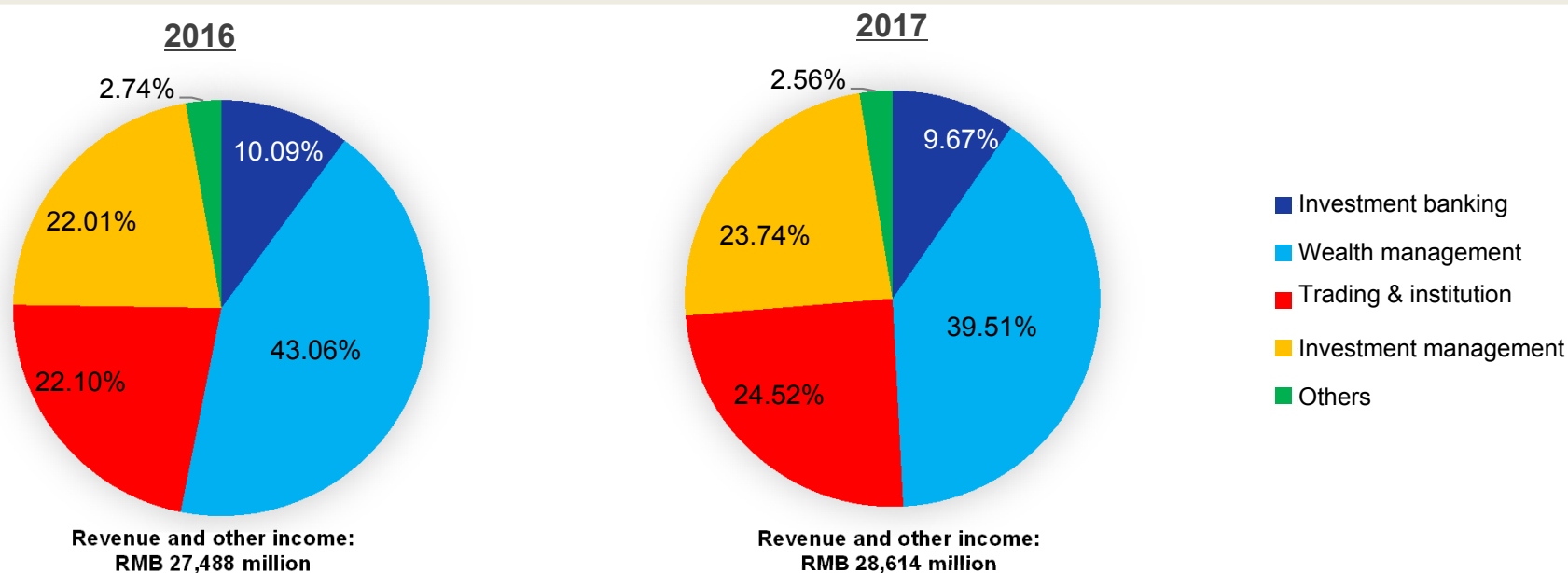
<sup>1</sup> Cost-to-income ratio = Total expenses / revenue & other income

<sup>2</sup> Represents simple change in the percentage from 2016 to 2017

<sup>3</sup> Adjusted cost-to-income ratio = (Total expenses – interest expense – commission & fee expense) / (revenue & other income + share of results from associates & JVs – interest expense – commission & fee expense)

# Segment operating results

## Revenue breakdown by segment



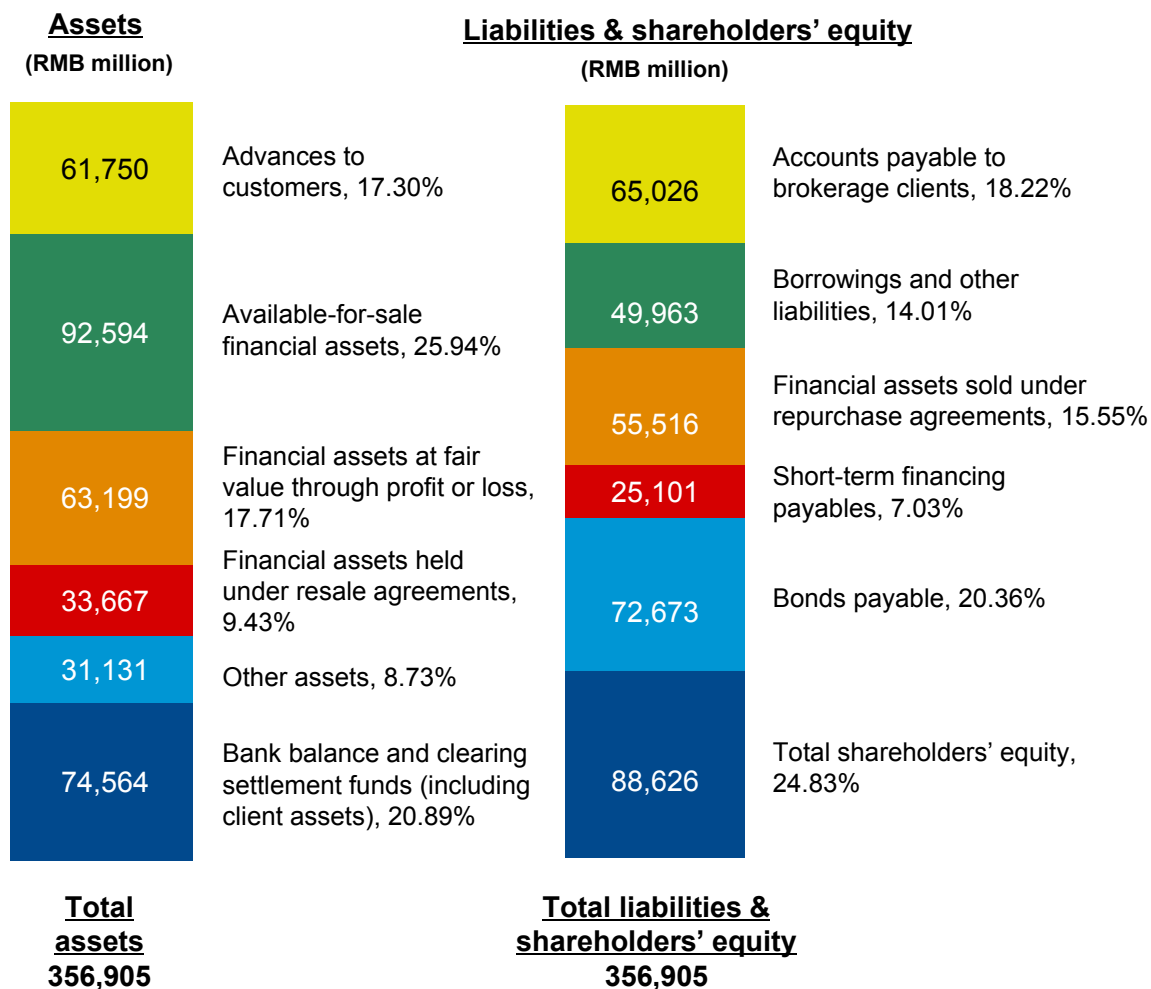
## Revenue and other income by segment

(RMB million)	2016 Revenue & other income	2017 Revenue & other income	Change
Investment banking	2,773	2,766	↓ 0.26%
Wealth management	11,835	11,306	↓ 4.47%
Trading & institution	6,074	7,018	↑ 15.53%
Investment management	6,051	6,793	↑ 12.27%

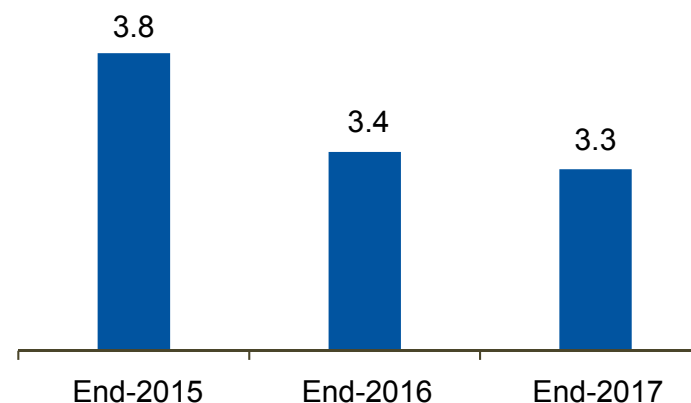
Source: Company financial reports

# Balance sheet structure and leverage ratio

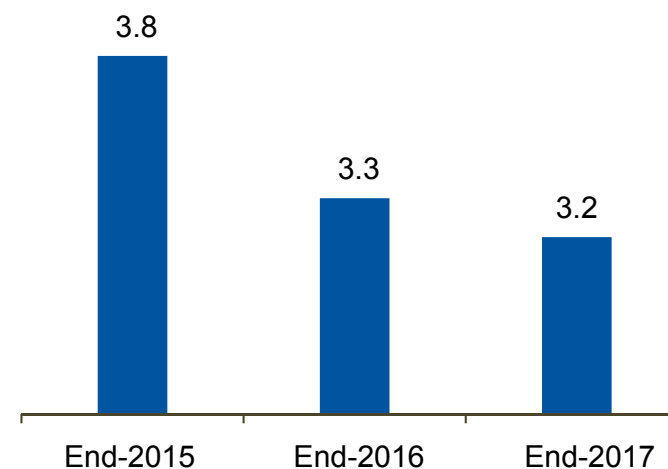
## Balance sheet breakdown (as of 31 Dec 2017)



## Leverage ratio (consolidated)<sup>1</sup>



## Leverage ratio (parent company)<sup>1</sup>



Source: Company financial reports

<sup>1</sup> Leverage ratio = (Total assets – accounts payable to brokerage clients) / total shareholders' equity



# 03




|Business  
Overview|









# Business overview: provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China's quality SMEs and affluent individuals

## Investment Banking

-  **Equity financing:**  
Acting as sponsor and lead underwriter in equity financing
-  **Debt financing:**  
Underwriting enterprise bonds, corporate bonds and non-financial enterprise debt financing instruments
-  **Financial advisory:**  
Providing financial advisory services regarding M&A, asset restructuring and NEEQ listing




Revenue mix: 9.67%  
OPM: 58.31%

## Wealth Management

-  **Retail brokerage and wealth management:**  
Providing trading services for customers trading stocks, bonds, investment funds, warrants, futures and other tradable securities; providing professional recommendations regarding client asset allocation and investment products through investment advisors
-  **Margin financing and securities lending:**  
Providing margin loans or securities lending for affluent customers
-  **Repo transactions:**  
Providing stock pledged repo services
-  **Financial leasing:**  
Providing financial leasing services through subsidiary Guangfa Financial Leasing.




Revenue mix: 39.51%  
OPM: 43.12%

## Trading & institution

-  **Sales and trading:**  
Investment, trading and market making in equities, bonds and derivatives; trading advisory and execution, investment research, and prime brokerage services for institutional clients
-  **Alternative investment:**  
Equity investment through GF Qianhe
-  **Investment research:**  
Providing various investment research services for professional, institutional investors
-  **Asset custody:**  
Providing asset custody and fund services for various asset management products

Revenue mix: 24.52%  
OPM: 32.03%

## Investment management

-  **Asset management:**  
Engaged in asset management business through GF Asset Management, GF Futures and GF Asset Management (Hong Kong)
-  **Mutual fund management:**  
Engaged in mutual fund management business through subsidiary GF Fund and affiliate E Fund
-  **Private equity fund management:**  
Engaged in private equity investment through GF Xinde

Revenue mix: 23.74%  
OPM: 60.80%

Sources: Company data, Wind, 2018

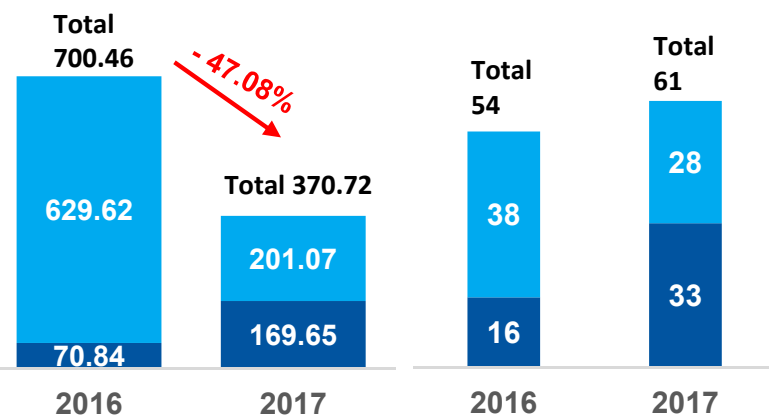
OPM = profit before income tax / revenue and other income

# Investment banking: key business metrics continue to lead industry

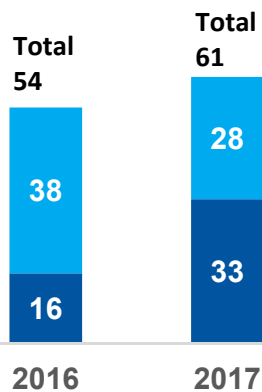
## Equity underwriting business

(RMB 100 million, No. of projects) ■ IPO ■ Refinancing

### Amount underwritten



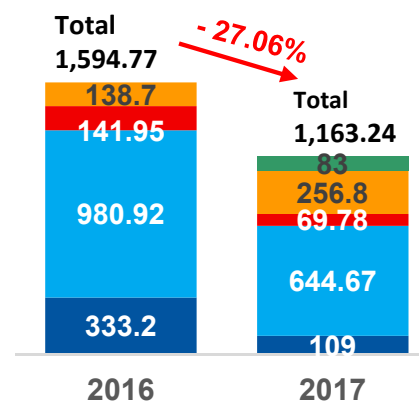
### No. of projects



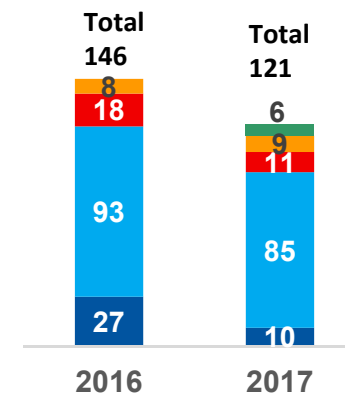
## Bond underwriting business

(RMB 100 million, No. of projects) ■ Enterprise bonds ■ Non-financial enterprise debt financing instruments ■ Convertible bonds ■ Corporate bonds ■ Financial bonds

### Amount underwritten



### No. of projects



## Major asset restructuring projects for which financial advisory service was provided

- Acted as financial advisor for 16 major asset restructuring projects in 2017, with total project value of RMB 85.248 billion
- Received Grade A for M&A financial advisory qualification from the Securities Association of China for third consecutive year

## Key business metrics leading industry

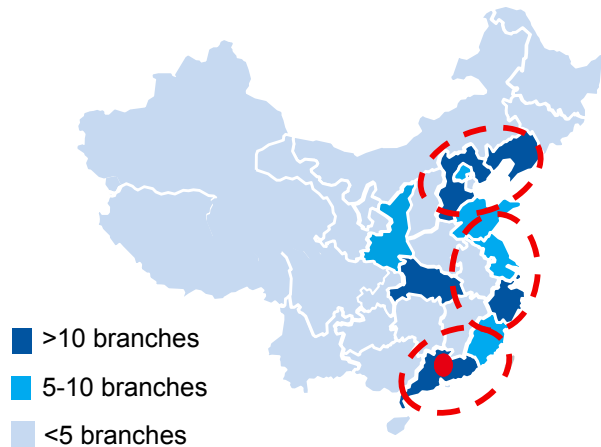
- Acted as lead underwriter for 61 companies' equity financing in 2017, ranking **1**; ranked **1** by number of IPO projects and ranked **2** by IPO underwriting value
- Ranked **3** by number of major asset restructuring projects for which we acted as financial advisor in 2017; ranked **2** by value of projects

Sources: Wind, Company data, 2018

Major asset restructuring projects for the financial advisory business include those approved by the CSRC's M&A and Restructuring Examination Committee and those categorized as non-administrative licensing approval projects

# Wealth management (I): business transformation and upgrade underway

## Business branches strategically located in economically developed regions



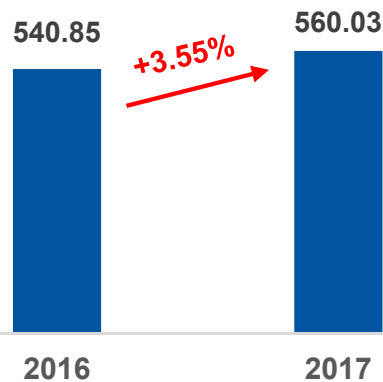
- We have 264 business branches in total
- Over 70% of them are located in the economically developed PRD, YRD and Bohai Rim regions

## Key business metrics leading industry

- Ranked **6** by stock and fund trading volume during 2017
- Ranked **5** by consolidated balance of margin financing & securities lending at end-2017
- Ranked **1** by balance of customers' trading settlement funds in custody at end-2017
- Ranked **1** with a team of more than 2,500 investment advisors at end-2017

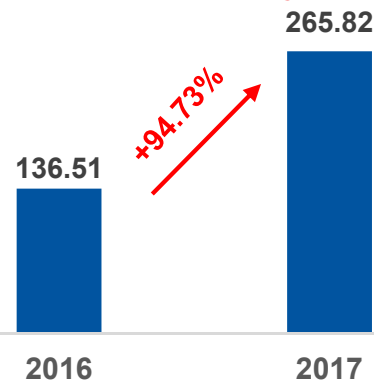
## Balance of margin financing & securities lending

(RMB 100 million)



## Balance of stock pledged repo

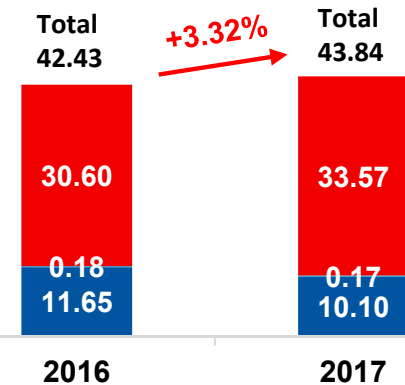
(RMB 100 million) **Business developed using Company's own funds**



## Securities brokerage business trading volume

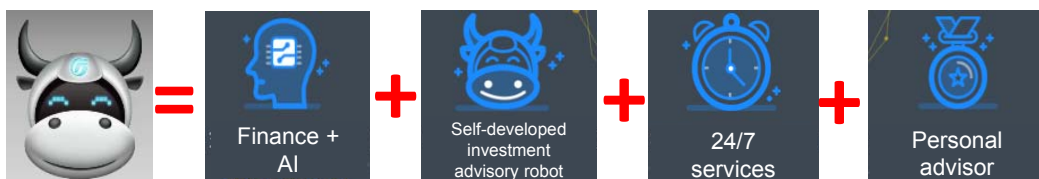
(RMB trillion)

■ Bonds ■ Funds ■ Stocks



# Wealth management (II): Industry-leading FinTech development

## Beta Bull, first investment advisory robot in industry



- In 2017, our self-developed smart investment advisory system Beta Bull phase II was launched
- Beta Bull has obtained the 2017 Smart Investment Advisory Pioneer Brokerage Award by International Finance News, Significant Contribution Award for Product Innovation by Financial Computerizing Magazine, and Best Innovation Award for Financial Technology Product by Institutional Investors

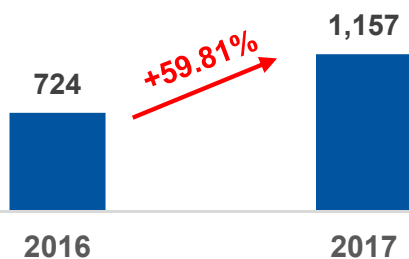
## Deepening AI development

- We have continued to strengthen our presence in the AI and mobile trading terminal space
- In 2017, we established a “Smart GF” strategic support system, and launched several smart applications such as the “Smart Customer Service”, “Smart Audio Assistant” and “Targeted Info”

## Continuing to enhance customer acquisition and conversion ability

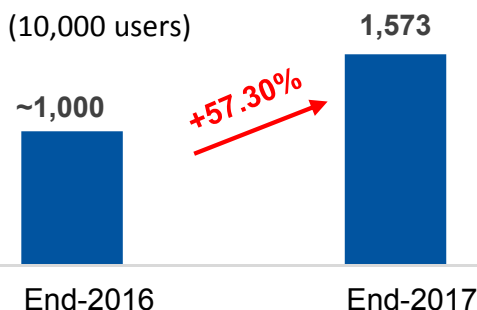
### Financial product sales/transfer on E-Taojin

(RMB 100 million)



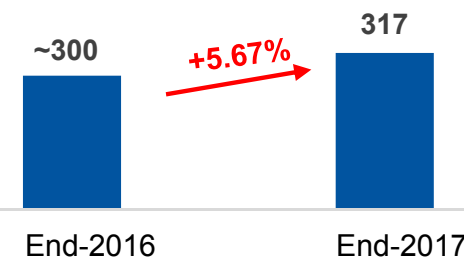
### Mobile securities users

(10,000 users)



### WeChat platform followers

(10,000 users)



Source: Company data, 2018


# Trading & institution: developing capital intermediary business, maintaining leading investment capabilities

## Business highlights


- 
■ **Grade AA (highest annual grade possible)** for SSE 50 ETF option market making; **Grade AA** for fund market making in multiple monthly assessments
- 
■ One of **first** participants in index futures market
- 
■ In 2017, we were one of the **first** few to qualify as a Bond Connect quoting institution, and was granted the interbank gold price quoting qualification by the Shanghai Gold Exchange
- 
■ In 2017, we ranked **6th** among brokerages in terms of bond trading volume

## Leading research capabilities

**Research coverage:** 750 companies listed in China across 26 sectors, and more than 50 companies listed on HKEx



**No. 1 in New Fortune's Best Local Research Team** poll in 2017; No.1 in macro research and 6 sector research polls in 2017



## Industry leading investment capabilities

**Equity** During 2017, we captured structural investment opportunities and achieved solid investment gains: net investment gains of RMB 1,517 million from equity & derivatives trading, and RMB 3,740 million from fixed income sales & trading

**Alternative** As of end-2017, GF Qianhe had completed 67 equity investment projects, of which 29 were newly added during the year; cumulative investment RMB 2,246 million; exited from four projects through IPO listing

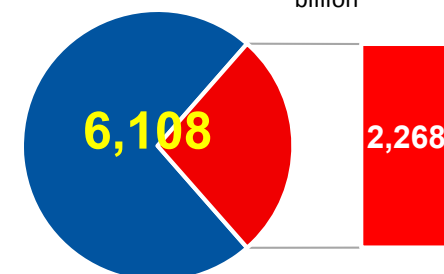
## Actively expanding FICC business

■ We are building an overseas FICC investment platform through indirectly wholly-owned subsidiary GF Global Capital, with asset allocations in bonds and structured products in **20 countries and regions** across Asia, Europe and the US



## OTC product issuance

■ Cumulative No. of products issued	■ No. of products issued in 2017
Cumulative value of products issued >RMB 464.8 billion	Products newly issued in 2017 worth >RMB 139.7 billion





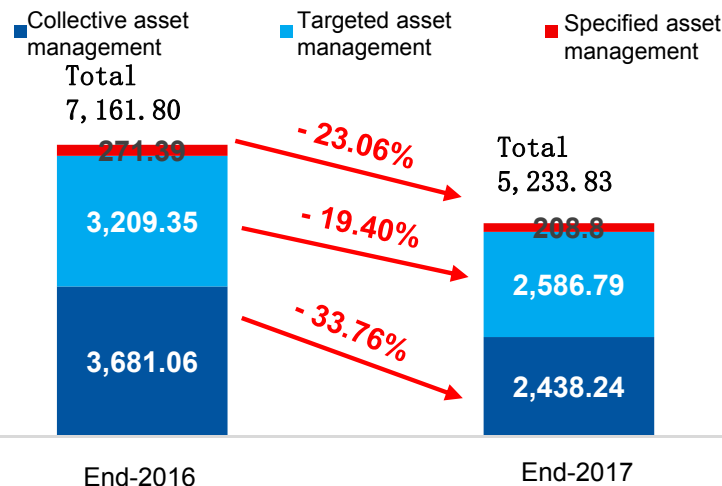
# Investment management: maintaining industry leading AUM

## Asset management

### Regulations

- During 2017, guided by policies for deleveraging, channel business reduction and refocusing on the original nature of business, GF Asset Management made steady progress in shifting towards better quality organic growth through active asset management

### GF Asset Management's AUM (RMB 100 million)



### Business highlights

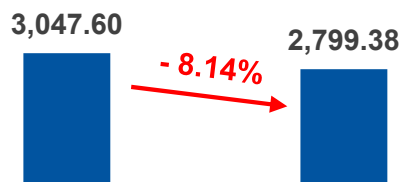
- In 2017 GF Asset Management ranked **6** by monthly AUM
- Ranked **1** by collective asset management AUM
- Ranked by **2** active asset management AUM

## Fund management business

### GF Fund's mutual fund AUM

(RMB 100 million)

**AUM RMB 188,930 million excluding money market funds, ranking **8****



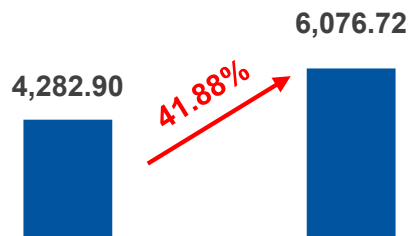
End-2016

End-2017

### E Fund's mutual fund AUM

(RMB 100 million)

**AUM RMB 288,210 million excluding money market funds, ranking **1****



End-2016

End-2017

## Private equity fund management

- GF Xinde (along with funds under its management) completed 38 equity investment projects in 2017, investing RMB 1,251 million.
- As of end-2017, GF Xinde (along with funds under its management) had completed 204 equity investment projects, set up and managed 35 PE funds, managing client funds of RMB 9,329 million.

# Core competitiveness

**1** Long-term market-oriented operating mechanism

- A sustainable, balanced and diversified shareholding structure provides strong support for the Company to form a sound governance structure
- Ensuring that the Company maintains its market-oriented operating mechanism in the long run, facilitating sustainable and healthy development

**2** Sound corporate culture and stable management team

- Management team members have an average of more than 23 years of managerial experience in securities, finance and relevant sectors, and have served an average term of more than 19 years
- Mid/high-level management and staff voluntary turnover less than 2%/3% over past 3 years

**3** Time-tested effective risk and compliance management mechanism

- We were one of the first batch of pilot compliance management brokerages selected by the CSRC, and one of the first brokerages to implement a comprehensive risk management strategy
- Over the years, we have maintained solid asset quality, with key risk control indicators in line with regulatory levels and leverage regulatory indicators offering a large safety margin, demonstrating strong risk resistance

**4** We have been an industry leader in terms of key operating indicators with continuously growing brand equity

**Ranking by key operating indicators in 2017**

	2017/end-2017
Revenue	4
Net profit	5
Total assets	4
Net capital	4
Net assets	5

**Brand influence**

- Ranked among top 3 Chinese securities firms in Hurun Brand List during 2015-2017
- We assume our social responsibilities through the “GF Securities Social Charity Foundation”, which a focus on poverty reduction and education in less developed regions

**5** Fully-licensed and equipped to provide comprehensive financial services

- Framework of a financial group has been formed, client servicing ability further strengthened

**6** Industry-leading FinTech model

- Actively expanding FinTech R&D team, stepping up proprietary R&D and innovation in big data, AI, IT platforms and customer terminals
- So far applications have been filed for 7 invention patents, 2 utility model patents and 6 software copyrights; among them, 1 utility model patent and 6 software copyrights have been obtained



# 04

| Outlook |



# Industry trends: industry increasingly important; substantial room for capital market growth

## Domestic capital markets' potential for future development

### Increased importance of securities industry

- Well-defined targets are set for China's securities industry in the report for the 19<sup>th</sup> CPC National Congress: enhancing the finance industry's ability to serve the real economy, increasing the proportion of direct financing, and promoting the development of multi-layered capital markets
- During China's new era of high-quality economic development, the securities industry will become much more important to match China's great economic power

### Capital markets' growth potential

- Capital markets are an important platform for the market-driven allocation of resources and a key channel for the finance industry to serve the real economy
- There is considerable direct financing demand from companies, while industrial upgrade, industrial relocation and the M&A market are just taking off; proportion of direct financing to rise on policy support
- Capital markets have strong advantages and potential in pushing reforms related to quality, efficiency and growth momentum

### Substantial room for growth in wealth management business

- Wealth appreciation and asset allocation needs provide a solid foundation for the development of the wealth management business
- Given ongoing modernization of the Chinese economy and continued growth in household wealth, more financial products and services are needed to meet various needs, which would drive rapid growth in the domestic asset management industry
- Financial assets will increase in Chinese households' asset allocation, with the wealth management business to develop further and become more differentiated

### Rising proportion of institutional investors

- As income increases and the market becomes more mature, the overall investor base is increasingly institutionalized; services for institutional investors will become mainstream in the securities market
- The strong growth in PE funds, increased participation of professional investors such as insurers, pension funds and overseas investors has brought new income sources and diversified business opportunities

### Accelerated capital market internationalization

- Regulators are encouraging securities firms to develop overseas and catch up with their international peers; following the Stock Connect, the introduction of the Bond Connect has encouraged orderly bilateral capital flow; both Chinese companies and investors are "going out", driving the internationalization of Chinese securities firms
- The inclusion of A shares into the MSCI in 2018 will attract greater fund inflow from overseas, making it necessary for Chinese securities firms to provide quality services meeting international standards
- With the steady promotion of the Belt and Road initiative, China's capital markets will open up to the world and become globalized at a faster pace



# Future development strategy: focusing on customer groups and businesses with greatest growth potential

Strategic goal: “Upgrading overall industry position” in five years

## Developmental strategy

(2017-2021 five-year strategic plan)

- We will adhere to “client focus” as our fundamental guiding principle; relying on business synergy and innovation, we will identify client needs, focus on clients’ expectations, and maximize clients’ interests
- Five strategic areas: industry leadership, FinTech development, internationalization, financial group structure, and platform development
- Four business developmental strategies: transforming and upgrading all four business segments of investment banking, wealth management, trading & institution, and investment management
- Six strategic supports: strategic management, research platform, comprehensive risk management, finance resource management, human resource management, and IT development, to provide strong support for the realization of the four business strategies

## 2018 business plan

- In 2018, by leveraging our market-oriented mechanisms, we will speed up the transformation of our traditional businesses, actively develop our mid/high-end client base, and fight for an advantageous position for future competition

## 2018 priority

- We will solidify our market position, grow new competitive strengths, improve our institutional client service system, enhance our international competitiveness, and bring ourselves to new frontiers guided by the new strategies



# Thank you!

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